CITY OF HIGHLAND PARK
Return to Excellence

Hubert Yopp
Mayor

June 15, 2011

Via E-Mail

Mr. Jeffrey S. Leithauser
Vice President - Commercial Division
Fifth Third Bank
1000 Town Center
Southfield, MI 48075

Re: Extension of Direct Pay Letter of Credit R430994

Dear Mr. Leithauser

On May 31, 2011, representatives from the City of Highland Park, Michigan Department of Treasury, Fifth Third Bank, and Robert W. Baird & Co. met via conference call and or in person to discuss the process to extend the direct pay letter of credit that enhances the City's Variable Rate Demand Financial Recovery Bonds, Series 2008. At this meeting, the Bank asked the City to address the following issues:

- Calculation and levy for the Series 2008 Bonds for the 2011 tax year
- Plan to address the City's pension obligations after the Series 2008 Bond proceeds are spent

As previously acknowledged by the City and the Bank, the City would provide the requested information and the Bank would respond in a timely manner to facilitate the delivery and execution of an extension of the direct pay letter of credit to the Trustee on or before July 15, 2011. The City is formally requesting that the new expiration date of the letter of credit, at a minimum, be July 15, 2013 (or such other appropriate date) to match the maturity date of the interest rate management agreement with Fifth Third Bank.

Calculation and Levy for Series 2008 Bonds

Assuming estimated debt service for fiscal year ending 2012 of approximately $2,400,000 (assumes an interest rate of 6.00%), the tax rate for the Series 2008 Bonds, accounting for estimated delinquencies of 40%, would be 22.00 mills. The City has placed a levy of 9.00 mills on July 1, 2011 and will have the balance of 13.00 mills levied on December 1, 2011.

Plan to Address Future Pension Obligations

The City has several options to meet its future pension obligation requirements after the Series 2008 Bond proceeds have been spent. These options include but are not limited to:

- Contribution from the General Fund (see discussion below)
- If a Pension Plan qualifies, the City may be able to levy millage in an amount to meet the annual appropriation (Act 345 of 1937)
- Vote an unlimited tax general obligation bond issue
- "Friendly" Judgment structured to be paid in installments

In addition, the City's annual required and total expected future contributions to the Pension Plans use certain actuarial assumptions (See Note 10, Note 11, and Note 12 in the City's audited Financial Report for fiscal year ending June 30, 2010). The City could re-examine and modify such assumptions, which may reduce the projected contribution to each Pension Plan.

General Fund

Shared Service Agreement with City of Hamtramck

In January 2010, the City established a shared service agreement with the City of Hamtramck to facilitate the collection of past and current income taxes. As a result of this agreement, the City's income tax revenue has increased 5.4% from fiscal year ending June 30, 2009 to June 30, 2010. Excluding a one-time, unanticipated collection of $700,000 due to lottery winnings, the City expects an increase in income tax revenue of approximately 15% for fiscal year ending June 30, 2011.

New Fire Station

In January 2010, the City received a $2.6 million grant from the Federal Emergency Management Agency for a new fire station. The City is planning a groundbreaking ceremony in September 2011. After the completion of the fire station, the City expects operational efficiencies and cost reduction for its General Fund.

Distributable State Aid (Revenue Sharing)

As of June 30, 2010, the City received approximately $3.14 million of Distributable State Aid ("DSA") comprised of approximately $1.08 million of constitutional and approximately $2.06 million of statutory revenue sharing. Of the $3.14 million, approximately $400,000 of DSA was used to pay a portion of the Series 2008 Bonds debt service which includes the letter of credit fee and on-going fees, leaving approximately $2.74 million for the City's General Fund.

With the enactment of recent legislation, the State of Michigan's 2012 budget eliminates statutory revenue sharing for cities, villages and townships and replaces it with an incentive based revenue sharing program known as the Economic Vitality Incentive Program ("EVIP"), that will be distributed to municipalities that comply with certain "best practices" such as sharing costs of services with other communities, reducing employee pension costs and requiring employees to pay at least 20% of the cost of their health insurance as their contracts expire. The State's fiscal year 2012 budget does not alter the distribution of constitutionally dedicated sales tax revenues. The State's fiscal year 2012 budget also includes an increased constitutional revenue sharing distribution to cities, villages and townships of approximately $15.25 million.

Should the City implement the "best practices" as described in the next paragraph, it could receive approximately $1.24 million from the EVIP program in addition to its $794,092 in constitutional revenue sharing for a total revenue sharing distribution of approximately $2.03 million. That amount is approximately $1.11 million less than the City's total appropriation for the current 2011 state fiscal year. With the City increasing the tax levy for the Series 2008 Bonds, the City's General Fund will experience an approximate $700,000 net reduction in revenue sharing after taking into account the prior use of DSA to pay a portion of the debt service on the Series 2008 Bonds.

Under the EVIP program, an eligible municipality such as the City can receive (i) one-third of the money it is eligible for if it produces a citizen's guide to its finances and a performance dashboard; (ii) another third if it develops plans to increase its existing level of cooperation, collaboration and consolidation, both internally and with neighboring jurisdictions, and (iii) a final third if it develops a compensation plan that, among other things, limits public employer health care contributions to no more than eighty percent (80%) and pension multipliers to two percent (2.0%). The compensation plan must be completed by May 1, 2012 for the City to receive all of the money that it is eligible for from the final component described in clause (iii) of the preceding sentence; otherwise, the City can receive no more than half of the money in this final component.

The City expects to implement all of the "best practices" required under the EVIP program described above.

Water and Sewer Fund Interfund Liability

As of June 30, 2010, the Water and Sewer Fund has an outstanding interfund liability to the General Fund of approximately $4 million and cumulative deficit of approximately $8.7 million. In 2009, the City implemented an increase in its water and sewer rates by approximately 20% for each of the next five years. Despite the implementation of the original rate increase, the Water and Sewer Fund experienced an increase in chargebacks and a decline in consumption. In order to eliminate the cumulative deficit in the Water and Sewer Fund and to repay the interfund liability to the General Fund, the City recently took action to again increase its water and sewer rates an additional 29% each of the next three years.

City of Highland Park Community and Economic Development

Future forecast for the Department of Community and Economic Development ("CED") looks promising as State and Federal leveraging opportunities continue to be available and re-establishment of divisions of the department with strong revenue components may be reinstated. The CED acknowledges that no one project or program that will return the City to solvency, however, a comprehensive plan over the next 36, to 72 months, aims to address blight, stabilize neighborhoods, spur economic development, code enforce existing activity and to become more inviting to housing and business needs to grow the tax base and prove to be key, to the City's revitalization.

NSP 2 - $15 Million Grant

The City is one of 12 cities in the State currently working to share $223 million for Neighborhood Revitalization, Stabilization and Economic Development. The City may be awarded as much as $15 million dollars to be used for qualified projects. If properly leveraged, a minimum gain of $3 million and upwards of $7 million dollars of New Development over the next 24-36 months can occur. The removal of blight, the rehabilitation of homes in the City's Historical District and the proposed seeding of mixed use developments including additional housing and retail would increase the City's tax base.

M-1 Lite Rail

The final plans for a new Lite Rail system in the southeast area of Michigan would originate from downtown Detroit on Jefferson Avenue and head northwest to 8 Mile Road, passing directly through Highland Park. Along the rail route on Woodward Avenue, 3 Rail Stops are scheduled to take place within the City. This is significant not only for the convenience of travel for residents, but for potential economic development for the City which encompasses only 2.98 square miles. Recent studies indicate that within ¼ of a mile of Rail Stops new economic development will occur and have potential to expand. It is anticipated that after the announcement and plan of the Lite Rail System later this summer, property currently owned by the City and privately held parcels may increase in value. All new development, expansion and sale of property for new use, would have met the City's new proposed zoning ordinance, city guidelines and zoning requirements. These activities may result in more fees and collections for permits.

Building Official / Department

With the return of the Building Official and approved State return of the Building Department, the City projects an increase in revenue. It is anticipated the Building Department within the first year, will net between $150,000 and $250,000 due to the re-establishment of stronger code enforcement, the collection of fees for all building permits, the assessing of fees for inspections, the assessing for fines for violations, the assessing of fees for rental property registration. The State currently provides these activities in a limited capacity on behalf of the City. Records indicate that with minimum follow-through, and non pro-active collections or enforcement, the State currently collects $8,000 - $12,000 monthly in fees from property and business owners who voluntarily pull the necessary permits to operate or meet code guidelines. It is anticipated revenue would grow as much as 300% per month with active enforcement, in town inspections, and more convenient personal and professional contact with residents, business owners and developers. The first year projections include the $4 million of scheduled demolition which will require permits to be pulled as well as the leveraging of $1.5 to $2 million towards new development or mixed use development totaling $5-$7 million dollars of new projects. These new projects would pay permit and inspection fees totaling on an average of 3% of the development cost.

Ford Plant

Plans are underway for the WA3 to purchase and rehab the original Ford Plant located in Highland Park. This renovation over the next 36 to 48 month is being slated as the first stop in Michigan on the tour of the Automobile Industry. Combining the new M-1 Lite Rail along with the destination location stop as part of the current Greenfield Village Tour, this location will not only be a "Museum Stop" but it is anticipated that the rehabilitation would include office loft units as well as an onsite location of the maintenance station for the Lite Rail. The Ford Plant would be one of the key catalysts for new development and new market rate commercial property in the Highland Park Business District.

Leveraging of Annual Programs and Additional Federal Grants

The City continues to leverage State and Federal programs to receive additional grants. Some of these programs include:

- Community Development Block Grant – Annual $276,000
- Housing and Urban Development Environmental Grant - One Time Grant $475,000 Blight Removal
- Wayne County NSP 1 – One Time Grant $300,000 Blight Removal
- Cities of Promise – One Time Grant $1.5 million Blight Removal

The City looks forward to our meeting on Thursday, June 16, 2011 at 10:00 AM to answer any questions you may have of this correspondence and to confirm the Bank's ability to meet the proposed July 15, 2011 commitment date.

Sincerely,

Hubert Yopp
Mayor
City of Highland Park

cc: Thomas F. Saxton, Deputy State Treasurer, Michigan Department of Treasury
John Barton, Assistant Director, Bureau of Finance
Harold W. Bulger, Esq., Miller, Canfield, Paddock and Stone, P.L.C.
David P. Massaron, Esq., Miller, Canfield, Paddock and Stone, P.L.C.
Brian J. Lefler, Robert W. Baird & Co. Incorporated

House Bill 4716

Summary: The bill would provide a city that issues Financial Recovery Bonds (only Highland Park and Ecorse have issued Financial Recovery Bonds) to refinance all or a portion of such bonds subject to prior approval from the Local Emergency Financial Assistance Board.

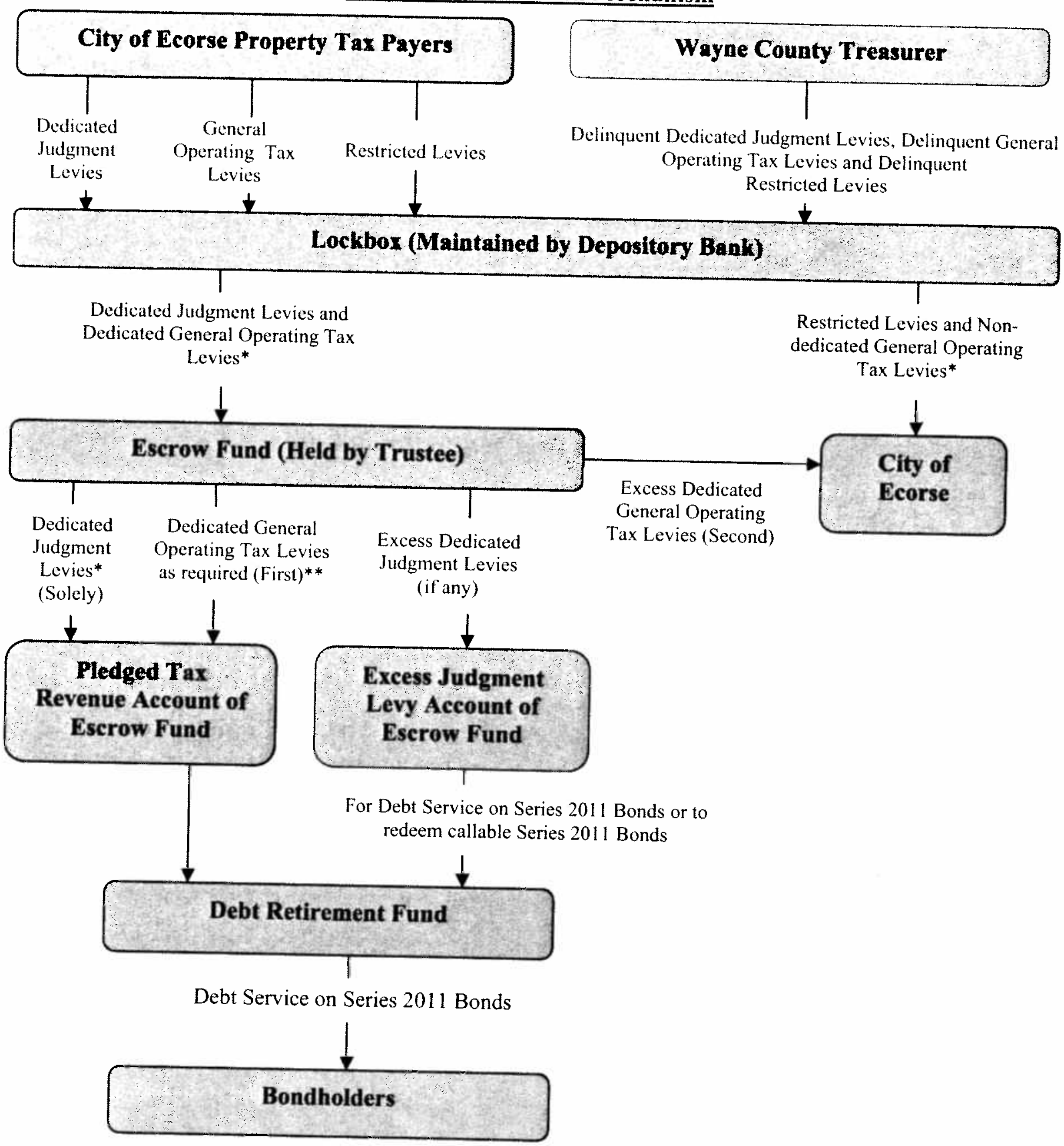
The bill also allows the city to pledge additional security to Financial Recovery Bonds bonds, either outstanding or issued in the future, sell such bonds to the Michigan Finance Authority, create a separate account for the payment of such bonds (an escrow account giving bond holders a statutory lien and trust), and allows for the appointment of a third party to collect, pay, remit, disburse pledged revenues for such bonds.

City of Highland Park

In 2008, the city of Highland Park issued its Financial Recovery Bonds as variable rate demand bonds enhanced by a direct pay letter of credit. A variable rate bond structure allowed the city to access the capital market using the credit strength of the provider of the direct pay letter of credit. In other words, a bond holder is relying on the provider of the letter of credit to pay on a timely basis the principal and interest on the 2008 bonds. The letter of credit provider received the following security for the 2008 bonds: 1) an unlimited tax general obligation pledge; 2) distributable state aid (revenue sharing); and 3) delinquent taxes related to the unlimited tax general obligation pledge. After the issuance of the 2008 bonds, the city entered into a five year interest rate management agreement (expires July 1, 2013) with the provider of the letter of credit to synthetically provide a fixed interest rate.

If the city were to issue refunding bonds for the 2008 bonds prior to July 1, 2013, the refunding bond proceeds, at a minimum, would have to be in a sufficient amount to repay the outstanding principal on the 2008 bonds, an amount of accrued interest on the 2008 bonds to the call date, the termination fee associated with the interest rate management agreement, if any, and costs of issuance.

Property Tax Lockbox Mechanism



*includes any delinquent payments of such levies.

** deposit of Dedicated General Operating Tax Levies is limited to amount required to satisfy any deficiency in the Debt Retirement Fund for such fiscal year

REVENUE DIVISION OF DEPARTMENT OF TREASURY (EXCERPT)
Act 122 of 1941

205.23 Determination of tax liability; notice; payment of deficiency; interest and penalties.

Sec. 23.

(2) If the amount of a tax paid is less than the amount that should have been paid or an excessive claim has been made, the deficiency and interest on the deficiency at the current monthly interest rate of 1 percentage point above the adjusted prime rate per annum from the time the tax was due, and until paid, are due and payable after notice and informal conference as provided in this act. A deficiency in an estimated payment as may be required by a tax statute administered under this act shall be treated in the same manner as a tax due and shall be subject to the same current monthly interest rate of 1 percentage point above the adjusted prime rate per annum from the time the payment was due, until paid. As used in this section, "adjusted prime rate" means the average predominant prime rate quoted by not less than 3 commercial banks to large businesses, as determined by the department of treasury. The adjusted prime rate is to be based on the average prime rate charged by not less than 3 commercial banks during the 6-month period ending on March 31 and the 6-month period ending on September 30. One percentage point shall be added to the adjusted prime rate, and the resulting sum shall be divided by 12 to establish the current monthly interest rate. The resulting current monthly interest rate based on the 6-month period ending March 31 becomes effective on the following July 1, and the resulting current monthly interest rate based on the 6-month period ending September 30 becomes effective on January 1 of the following year.

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MICHIGAN HOUSE OF REPRESENTATIVES

JOHN OLUMBA

STATE REPRESENTATIVE

MEMO

To: Members of the Committee on Local, Intergovernmental and Regional Affairs
From: Representative John Olumba

RE: House Bill 4716 , Financial Recovery Bonds: Refinancing

We support this bill for passage because we recognize there are certain cities within our state that, given the proper opportunity to reconcile their debts, can return to economic viability and become great places to live and raise families.

This piece of legislation will allow for the issuance of financial recovery bonds. The result of the bond issue is intended to refinance old debt allowing for effective financial stabilization through the restructuring and alleviation of past bad debt. In addition, a financial move of this sort could improve the credit rating of the city and also give room on the "bottom line" so that the threat of insolvency and financial failure is no longer imminent.

We would like to take this opportunity to point out that the entire state is experiencing an economic downturn underscored by plummeting land values, and punctuated by massive population loss. Highland Park is unrivaled in terms of experiencing the magnitude of this economic pressure. It can be said that Highland Park represents a miner's canary of prolonged economic strife. We are also aware that when municipalities experience these types of budget shortfalls and looming debts, there is sometimes an inclination to point to mismanagement or fraud and abuse, when in fact the issue is identified as structural.

We know that this is a real problem not created by neglect but by market forces. Highland Park deserves help from the state to get back on its financial feet. It is a city filled with resilient citizens, workers and elected officials who have worked hard to consolidate, right-size, and tidy their financial house while cooperating with the state and treasury department. The people of Highland Park are hard at work; they are not sitting idly by watching their misfortune overtake them. They are proactive in rectifying their financial ills and re-establishing economic viability for the city.

In summary you will find below some context of this situation and notable remediation taken in the form of aggressive government reforms by Highland Park:

- Highland Park is a city designed to accommodate 55,000 people and now holds 11,000 according to the 2010 census.
- In 2005 the city had a budget deficit of $16,000,000.
- The city showed a budget surplus in 2009.
- Highland Park undertook meaningful pension reforms saving the city approximately $200,000/year.
- The city has a closed pension system.
- To aid in collection of revenue the city attached delinquent water bills to property tax assessments.
- A combined collection of property taxes with the neighboring city of Hamtramck was put in place to cut costs. This resulted in a 20% increase in collections.
- There have been reduced insurance costs on city owned properties, by changing the city's insurance policy.
- They reopened negotiations with Blue Cross Blue Shield to reduce benefit costs.
- Re-established the city police force saving $1,000,000 per annum, in contrast to having county sheriff policing.
- Increased revenue from ticket collection through the re-establishing of the city police department.
- The city has a part time police force with full-time enforcement. This means that benefit costs have been virtually eliminated.
- Additionally, Highland Park has attracted new businesses resulting in the highest per capita increase to jobs in the county, one of the best in the state. Increasing employment by an estimated 5%. Some of these corporations include Visteon, Coca Cola and Miller Distribution Company.